



Defense Contract Audit Agency (DCA

DCAA and the Small Business Innovative Research (SBIR) Program

Keith Tack CPA, MSF

**DCAA Financial Liaison Advisor -
TACOM**

Dual Use Technology Briefing

**5/18/05 Schoolcraft College, Livonia,
MI**

5/26/05 Automation Alley, Troy, MI

Presentation Overview

- DCAA Background Information
- DCAA and the SBIR Program
- Common DCAA SBIR Reviews
- Available Resources

“Dost thou love life, then do not squander time, for that's the stuff life is made of.” Benjamin Franklin

“We have a lot to cover in 30 minutes. I recommend holding questions to the end.” Keith Tack

Defense Contract Audit Agency



DCAA Background Information

Agency Mission

- Perform all necessary contract audits for the Department of Defense (DoD) and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration. These services will be provided in connection with negotiation, administration and settlement of contracts and subcontracts.
- Provide contract audit service to other Government Agencies as appropriate.

DCAA Organizational Overview

- Approximately 4,000 employees
- More than 300 field audit offices
- United States and overseas
- Local:

Great Lakes Branch Office
38701 Seven Mile Road
fao2261@dcaa.mil
Suite 460
Livonia, MI 48152

Phone No: 734-805-3080
E-mail: dcaa-

DCAA Products and Services

- Price Proposals
- Preaward Surveys
- Forward Pricing Labor & Overhead Rates
- Incurred Costs/Annual Overhead Rates
- Truth in Negotiation Act Compliance
- CAS (Cost Accounting Standards) Compliance & Adequacy
- Claims
- Financial Capability
- Contractor Internal Control System Audits
- Other reviews as requested by the contracting officer

What DCAA Will Not Do



- Establish accounting or any other types of management systems
- Recommend software programs
- Perform audits requested by the contractor
- Provide consulting services to the contractor
- Recommend a consultant

Defense Contract Audit Agency

*DCAA
and the SBIR
Program*

Field Pricing Support



FAR 15.404-2:

The contracting officer should request field pricing assistance when information available at the buying activity is inadequate to determine a fair and reasonable price.

SBIR Phase I at TACOM



Phase I is a feasibility study in which the small businesses will receive up to \$70,000 for a six month project to demonstrate the scientific, technical and commercial feasibility of the selected concept. An option is available for up to \$50,000 for interim activities between Phase I and Phase II, if the project is selected to receive a Phase II award. Phase I is normally a FFP contract with partial payments based on the submission and acceptance of reports from the company to TACOM.

In most cases, the TACOM Contract Specialist or Contracting Officer does not request DCAA's assistance with evaluating Phase I SBIRs.

SBIR Phase II at TACOM



Contractors with successful Phase I projects might be invited to participate in the next phase of the SBIR program. Phase II represents a major R&D effort, culminating in a well defined deliverable prototype. If selected, the small business will receive up to \$730,000 award.

The vast majority of Phase II SBIR contracts awarded by TACOM are on a Cost Plus Fixed Fee basis. In order to receive a cost type contract an offeror must have in place, prior to award, an accounting system that is adequate for accumulating costs under a flexibly priced (cost type) contract environment.

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Common DCAA SBIR Reviews

Common DCAA Reviews Associated with SBIR Phase II Effort

Preaward Contract Audit Services

- Preaward Accounting Survey
- Forward Pricing Proposals
- Financial Capability (not as common as the 1st two)

Postaward Contract Audit Services

- Incurred Costs
- Other Audits

Preaward Accounting Survey Audit



The preaward accounting system survey is an audit to determine the acceptability of a contractor's accounting system for accumulating costs under a prospective Government contract.

The auditor will need to obtain an understanding of the design of the prospective accounting system so as to appropriately complete the **SF 1408** - "Preaward Survey of Prospective Contractor Accounting System".

SF 1408

- Proper segregation of direct costs from indirect costs
- Identification and accumulation of direct costs by contract
- A logical and consistent method for allocation of indirect costs to intermediate and final cost objectives
- Accumulation of costs under general ledger control
- A timekeeping system that identifies employees' labor by intermediate or final cost objectives
- A labor distribution system that charges direct and indirect labor to the appropriate cost objectives

SF 1408

- Interim (at least monthly) determination of costs charged to a contract through routine posting to books of account
- Exclusion from costs charged to Government contracts of amounts that are not allowable pursuant to Federal Acquisition Regulation (FAR) Part 31, Contract Cost Principles and Procedures, or other contract provisions
- Identification of costs by contract line item and units if required by the proposed contract
- Segregation of preproduction costs from production costs

Common Problems Encountered During Accounting System Reviews

- Unallowable costs not accounted for separately
- No cumulative labor distribution and/or job cost ledgers
- No written policies and procedures

Common Problems Encountered During Accounting System Reviews

Timekeeping system problems:

- No official system in place
- No written instructions/policies/procedures
- System not linked to accounting system
- Recording of direct charges only
- Recording by direct-type personnel only
- All hours worked are not recorded
- Improper timecard preparation

Financial Condition Risk Assessments or Financial Capability Audits

Financial capability audits are performed to determine if the contractor is financially capable of performing on Government contracts. These audits may be performed during the preaward or post contract award periods. The type of financial information examined by DCAA consists of such data as:

- financial statements, including those contained in reports issued to stockholders, lending institutions, and SEC filings
- cash flow forecasts
- loan agreements and related information
- aging of accounts receivable and payable
- financial history of the contractor and affiliated concerns
- employee payroll tax returns (Federal)

Forward Pricing Proposals

INDIVIDUAL PRICE PROPOSALS (Common with Phase II SBIRs)

Represents effort expended to examine estimates of entire price proposals submitted by contractors in connection with the award of government contracts.

AUDIT OF A PART OF A PROPOSAL (Common with Phase II SBIRs)

Represents effort expended to examine and express an opinion on one or more parts of a forward pricing proposal. A part of a proposal may be an entire cost element or part of a cost element (e.g., rates or bases), but not the entire proposal.

AGREED UPON PROCEDURES

Represents effort expended to perform specific procedures as a result of customer and auditor agreement (regarding the procedures to be performed) in the evaluation of forward

Forward Pricing Proposals

Important ! FAR 15.408, Table 15-2, provides instructions on preparing a proposal and the backup required when cost or pricing data are required.

There are a lot of additional aids and guidance out there. However, FAR is the actual regulation.

We do not have the time to go over Table 15-2 during this presentation. However, I will mention some common problems encountered during proposal reviews.

Forward Pricing Proposals



Chapter 3 of DCAA's DCAAP 7641.90 "Information for Contractors" provides additional guidance regarding proposal requirements, examples of data DCAA may request, as well as a model proposal.

Data should be provided in electronic format.

An adequately supported proposal submission will result in an expedited audit evaluation.

Forward Pricing Proposals

Advanced Tank Technologies
Washington, DC
Proposal Submitted in Response To RFP DAAH01-02-R-0001

<u>Element of Cost</u>	<u>Amount</u>	<u>Reference</u>
Engineering Labor	\$452,151	Schedule 1
Manufacturing Labor	26,412	Schedule 1
Direct Labor Overhead @ 56.7%	271,345	Schedule 3
Material	113,175	Schedule 2
Material Handling Overhead @ 5.0%	<u>5,659</u>	Schedule 5
Subtotal	868,742	
G&A @ 8.0%	<u>69,499</u>	Schedule 4
Estimated Cost	938,241	
Profit @ 10.0%	<u>93,824 *</u>	
Total Price	<u>\$1,032,065</u>	

Example is in DCAA's "Information for Contractors"
www.dcaa.mil

Common Deficiencies Found in Forward Pricing Proposals

Failure to provide the basis for proposed material, labor, other direct costs

Lack of a consolidated bill of materials

No support for indirect expenses and/or improper allocation bases

Lack of budgetary data to evaluate indirect rates

Failure to account for period of performance - rates often change each contractor fiscal year

Common Deficiencies Found in Forward Pricing Proposals

Unallowable costs included in proposal (FAR Part 31)

Proposal not mathematically correct

Supporting schedules do not tie into summary

Poor or no index of cost & pricing data

Following examples too closely – if you don't have a material overhead pool, don't proposal a material overhead rate

Incurred Cost Proposals

The Allowable Cost And Payment clause (FAR 52.216-7) requires that the contractor submit an adequate final incurred cost proposal together with supporting data, within 6 months after the end of its fiscal year. This proposal should include a signed "Certificate of Indirect Costs" in accordance with FAR 42.703-2. A copy of this certificate may be found at FAR 52.242-4.

Incurred Cost Proposals

The Incurred Cost Electronically (ICE) Model, which is the electronic version of the Model Incurred Cost Proposal in Chapter 6 of DCAA's DCAAP 7641.90, provides contractors with a standard user-friendly ICE submission package that will assist them in preparing adequate incurred cost proposals in accordance with FAR 52.216-7

Other Potential Audits

Floor Checks:

DCAA auditors periodically perform physical observations of work areas and inquiries of employees to determine if: (1) employees are actually at work, (2) employees are performing in their assigned job classification, and (3) employee time is charged to the appropriate job or indirect account. These types of audits are referred to as floor checks. DCAA will perform unannounced floor checks to determine the adequacy and accuracy of the timekeeping system for reimbursement of labor costs under cost reimbursable contracts.

Public Vouchers:

The contracting officer may request DCAA to review a public voucher.

Defense Contract Audit Agency



Available Resources

General Resources

General SBIR Resources: Contracting Officer/ Contract Specialist

Department of Defense SBIR Program:

<http://www.acq.osd.mil/sadbu/sbir/>

Army SBIR Process:

<http://www.aro.army.mil/arowash/rt/sbir/sbir.htm>

TARDEC SBIR Program:

http://www.tacom.army.mil/tardec/_docs/sbirtrifold.pdf

SBIR Gateway: <http://www.zyn.com/sbir/>

This is the web site that covers the National SBIR Conferences and links to all of the agencies SBIR pages (not just DoD).

Federal Acquisition Regulations:

<http://www.arnet.gov/far/>

<http://farsite.hill.af.mil/>

DCAA Resources



DCAA Website: www.dcaa.mil

- **Your local Field Audit Office**
- **DCAAP 7641.90 “Information for Contractors”**
- **The Incurred Cost Electronically (ICE) Model**

Click on Audit Office Locator



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Address http://www.dcaa.mil/

DCAA Cognizant Field Audit Office (FAO) Locator

Welcome to the DCAA Locator Web Site.

This Web site queries the DCAA Cognizant FAO database and allows you to find the FAO(s) assigned to a given zip code. Along with each cognizant FAO, there will also be displayed the FAO's e-mail address which when selected will automatically generate a pre-addressed e-mail message for requesting DCAA services.

Enter a contractor's 5-digit zip code and the system will display the cognizant field audit office responsible for that area.

For 5-digit zip code information not found through the Search, the system will automatically submit an electronic request to our web site and continue to search for the cognizant FAO which most closely matches the first three digits of the 5-digit zip code entered.

What's New
About DCAA
Audit Guidance
DCAA Publications
Freedom of Information Act
Links to Other Web Sites
DCAA Points of Contact
Job Opportunities
Audit Office Locator

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Type in Contractor's Zip Code and Hit Search



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Enter a contractor's 5-digit zip code and the system will display the cognizant field audit office responsible for that area.

For 5-digit zip code information not found through the Search, the system will automatically submit an electronic request to our web site and continue to search for the cognizant FAO which most closely matches the first three digits of the 5-digit zip code entered.

ZIP Code:

Great Lakes Branch Office- 02261

38701 Seven Mile Road
Suite 460
Livonia, MI 48152

Remark:

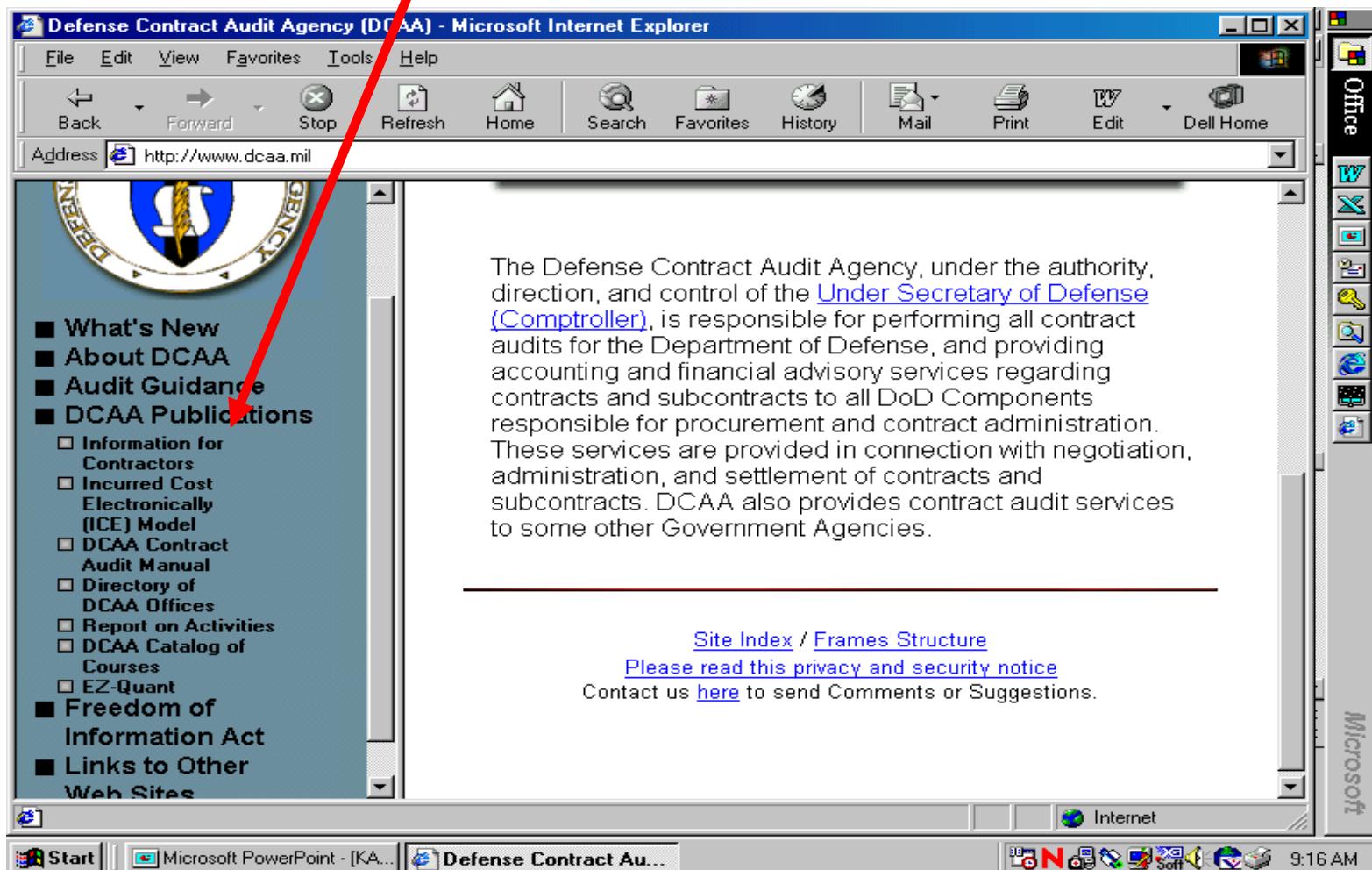
Phone No: 734-805-3080

Fax No: 734-805-3090

E-mail: dcaa-fao2261@dcaa.mil

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Information For Contractors



The Defense Contract Audit Agency, under the authority, direction, and control of the [Under Secretary of Defense \(Comptroller\)](#), is responsible for performing all contract audits for the Department of Defense, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. DCAA also provides contract audit services to some other Government Agencies.

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Information for Contractors
Incurred Cost Electronically (ICE) Model
DCAA Contract Audit Manual
FAR Cost Principles Guide
Directory of DCAA Offices
DCAA Catalog of Courses
EZ-Quant

■ Freedom of Information Act
■ Privacy Act
■ Links to Other Web Sites
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Bookmarks

DCAA 7641.90 - Information

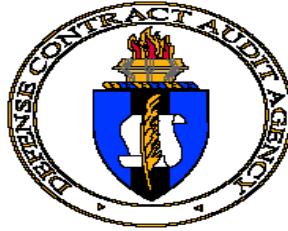
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- Chapter 3 - Price Proposals
- Chapter 4 - Cost Accounting Standards
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- Chapter 6 - Incurred Cost Proposals
- Chapter 7 - Contract Types
- Chapter 8 - Forms
- Appendix A - List of Acronyms and Abbreviations
- Appendix B - FAR Subpart 4.7 - Contractor Responsibility

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DCAA 7641.90
January 2005

INFORMATION FOR CONTRACTORS



DEPARTMENT OF DEFENSE
DEFENSE CONTRACT AUDIT AGENCY

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Incurred Cost Electronically (ICE) Model

October 11, 2002 Version

The ICE Model, which is the electronic version of the "Model Incurred Cost Proposal" in Chapter 6 of the DCAAP 7641.90, provides contractors with a standard user-friendly ICE submission package that will assist them in preparing adequate incurred cost proposals in accordance with FAR 52.216-7, "Allowable Cost and Payment." (Please see note 1 below.) To assist contractors in meeting this requirement, this web page provides the October 11, 2002 version of DCAA's electronic model incurred cost proposal. The ICE Program changes included with this current version are summarized in the Word document, [ICE Program - Major Changes](#).

If this is your first experience with the ICE Model, please contact your local DCAA Office to discuss the model and its requirements before preparing the proposal.

To download and execute the ICE Model files:

- Create a folder on the C: drive and name it ICE.
- Download the WinZip file, [ice](#), to the ICE folder. Then select "close."
- Locate the ICE file in your ICE folder using My Computer or Windows Explorer.
- Before you open the ICE file, [please see note 2 below](#).
- Double-click on ICE and the WinZip dialog box will open.
- Make certain the folder specified in the "selected folder" field is the ICE folder.
- Press the "Unzip Now" button and the files will extract.
- From the WinZip dialog box, press the "Close" button to exit.
- Your ICE folder will now show the ICE file plus one Word (.doc) file and two Excel (.xls) files.
- Open both [MSample.xls](#) and [ICE MANUAL.doc](#). MSample.xls is linked to the ICE MANUAL Index. The manual includes user instructions, the purpose of each schedule, and identifies the linking among schedules in MSample.xls. The second Excel file (ICEDEMO.xls) can also be opened to view completed sheets and formulas while inputting into MSample.xls.

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The ICE Model

Final Comments

The following references will not address all of the regulations nor answer all your questions. However, when it comes to cost and accounting issues, the following references provide a very good foundation for SBIR contractors :

- FAR Part 15 Contracting by Negotiation
- FAR Part 31 Contract Cost Principles and Procedures
- DCAAAP 7641.90 “Information for Contractors” The entire book is good, but the following are key for SBIRs

Chapter 2 - Preaward Surveys

Chapter 3 - Price Proposals

Chapter 4 - Cost Allowability

Questions ?

